



SUBJECT: 20 year budget driver forecast

TO: Committee of the Whole - Budget

FROM: Finance Department

Report Number: F-02-18

Wards Affected: All

File Numbers: 100-01

Date to Committee: January 18, 2018

Date to Council: January 29, 2018

Recommendation:

Receive and file finance department report F-02-18 regarding the 20 year budget driver forecast.

Purpose:

- An Engaging City
- Good Governance

Background and Discussion:

On November 26, 2012, City Council approved the Long Term Financial plan (Report F-22-12), which contains the following key strategic objectives for the city:

1. Competitive Property Taxes
2. Responsible Debt Management
3. Improved Reserves and Reserve Funds
4. Predictable Infrastructure Investment
5. Recognized Value for Services

Other related reports:

CM-01-16: Burlington's Strategic Plan 2015-2040

RPM-09-12: Joseph Brant Hospital Contribution Agreement

F-12-17: 2016 Asset Management Financing Plan

F-38-17: 2018 Operating Budget Overview Report

Strategy/process

The purpose of this report is to present the 2018–2037 operating forecast. The simulation uses the 2018 proposed budget (as submitted) as a starting point and adjusts the 2019 – 2037 forecast based on estimated budget drivers and the approved 2018 capital budget and forecast.

As with any modeling tool, the simulation forecast has greatest precision in the first year. It is imperative that the results are simply used as an information tool regarding major budget drivers and future projected tax impacts. Not only does it provide an analysis of what the future financial picture for the City of Burlington might look like, but it also helps assess financial risks and the affordability of existing services and capital investments, as well as provides an opportunity to analyze sensitivities to assumptions.

When forecasting into the future, it is difficult to predict with 100% accuracy given uncertainties around:

- Changes in economic conditions and market demands
- Fluctuations in customer expectations
- Legislative changes
- Reassessment impacts
- Operating impacts from approved capital initiatives
- Business process improvements

When updating the 20 year forecasting model, staff considered the general outlook for the city. Staff have shown a realistic scenario where assessment growth is maintained at 0.6% per annum for the next 4 years, reducing to 0.5% thereafter; no new legacy projects are forecasted; and infrastructure renewal funding is addressed over the 20 year time horizon, as per the Asset Management Financing Plan (F-12-17). These components provided the basis for estimating budget drivers (as per Appendix A) and include the following assumptions within each item:

Maintaining Current Service Levels – Base Budget

Inflationary Impacts and User Fees

- With the exception of human resources and commodities (hydro, water, fuel etc.), 2.0% inflation per year has been applied to all other expense categories (materials and supplies, purchased services and contributions to local boards and committees)
- The increases to User Rates and Fees assumed a 2.0% increase per annum, which is dependent on the nature of the revenues and external market conditions
- An annual increase of 4% to the Vehicle Depreciation Reserve Fund to sustain the City's fleet and equipment inventory

Corporate Expenditures/Revenues

- An annual increase to the provisions for Insurance and Contingency Reserves of \$100,000 each.
- An increase in Investment Income of \$100,000 per year in 2019 and beyond given the current low interest rate environment.
- Reversal of one-time revenue of \$220,000 for assessment growth stabilization in 2019.
- As the vacancy rebates are being phased out in Halton Region, there is a \$225,000 decrease in 2019 followed by a further \$250,000 in 2020 to bring the budget to zero.

Other Expenditures

Infrastructure Renewal Funding and Joseph Brant Hospital

- An annual increase of 1.25% for Dedicated Infrastructure Renewal Funding from 2018-2022, reduced to 1.0% for 2023-2033 and 0.5% for 2034 - 2037. This provides funding for capital renewal, as per the Asset Management Financing Plan (approved 20 year scenario).
- Includes the refocusing of the hospital levy to infrastructure renewal in 2019 (\$1.5 million), 2026 (\$0.8 million) and 2027 (\$2.5 million)

Transit sustainability

- \$1.3 million in annualized impact of changes made within the Transit Service to provide operational sustainability are included in the 2018 Proposed Budget. An additional \$372,000 for 5 additional Transit operators to provide appropriate industry standard layover times into routes is included in 2019. This would improve schedule adherence and reliability of the service.

Service Improvements

- \$400,000 has been included annually from 2019 and beyond for enhancements to City service levels.

Business Cases

- Estimated ongoing operational impacts from the 2018 Capital Budget and Forecast as well as growth related operating impacts in the future have been included.

Allowance for Unknown Factors

As with all forecasts, it is imperative to recognize that there are unknown factors that will likely occur in the future that could impact the model. In order to address these unpredictable factors, an amount of \$150,000 has been included in the 2020 forecast, increasing by \$50,000 per year until 2026, and maintained at \$450,000 beyond that.

Assessment Growth

The weighted assessment growth for the 2018 budget is **0.41%**. Assessment growth is estimated to be 0.6% in 2019 and maintained until 2022. For the remainder of the years, the assessment growth has been estimated to be 0.5%.

Financial Matters:

The proposed 2018 Operating Budget reflects a city tax impact of 4.19%, resulting in an overall tax impact of 2.49% (City, Region and Education).

The simulation forecasts the city tax impact from 2019 to 2037 to begin at 4.20% reducing to 2.47%. The overall tax rate impact (City, Region and Education) ranges from 2.62% in 2019 to 2.04% in 2037.

Total Financial Impact

The model indicates tax increases as follows (detailed in Appendix A):

						Average		
	Proposed 2018	2019	2020	2021	2022	2023- 2027	2028- 2032	2033- 2037
Net City Tax Increase	4.19%	4.20%	3.89%	3.86%	3.81%	3.35%	3.14%	2.60%
Overall Tax Bill Impact	2.49%	2.62%	2.55%	2.59%	2.52%	2.37%	2.32%	2.09%

Conclusion:

The 20 Year Budget Driver forecast is a tool that provides a high level summary of major budget drivers and the expected tax impacts. This will be helpful to establish future budget targets, as well as provide the ability to undertake tax impact sensitivity analysis should circumstances change.

Respectfully submitted,

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Appendices:

- A. 20-Year forecasted budget drivers
- B. 20-Year tax increase forecast graph

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.